

DATA RELATIVE TO WITHHOLDING PROVISIONS OF 1942 REVENUE ACT

SATURDAY, AUGUST 22, 1942

UNITED STATES SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON FINANCE,
Washington, D. C.

The subcommittee met, pursuant to adjournment, at 10:30 a. m., in room 312 Senate Office Building, Senator Bennett Champ Clark presiding.

Present: Senators Clark (presiding), Gerry, and Danaher.

Senator CLARK. I guess we are ready to proceed, Mr. Paul.

STATEMENT OF RANDOLPH E. PAUL, TREASURY DEPARTMENT

Mr. PAUL. I have handed you a statement. I would like to run through that statement.

Senator CLARK. All right.

Mr. PAUL. You will notice that we state that the Treasury has carefully reexamined this whole collection-at-the-source program since the House bill was enacted, with the idea of making improvements. I think we have accomplished that objective very definitely. It will be noted that much of the criticism of the withholding provisions is made in the light of the unimproved system.

In making that attempt to improve the mechanism, we went to the field and interviewed both employers and employees. We received every cooperation and help from the employers. They were very generous in their attitude, and from their practical experience they made a great many suggestions which we have adopted, so far as we were concerned.

Now, the modifications that we have suggested, or are about to suggest, are listed beginning at the middle of page 1. You will notice that for wages and salaries we suggest the adoption of the type of plan suggested by Mr. Gretz of the American Telephone & Telegraph Co., which involves the use of a simple-table to determine the amount of tax to be withheld, and attached to this memorandum is such table. You will notice that we have graded the table in brackets of \$5.

It is possible, from the use of this table, to tell instantly how much to withhold. The table is designed in four blocks: Single persons, not heads of families; married persons with employed spouse; married persons with spouse not employed, and head of family. We have to have a separate table for married persons with employed spouse and married persons with spouse not employed, because of the awkwardness of having the \$500 exemption for single persons which is not half the \$1,200 for married persons.

Now, by means of this table, you can determine the tax direct from the gross wage without any computations.

Under our original scheme you would take a person, say a single person who was making, let us say, \$30 a week, and you would take the table we had then, showing \$11 as the amount exempt from withholding in such case, and you would subtract the \$11 from the \$30, which would leave \$19, and then you would have to multiply the \$19 by the rate of withholding. This makes that same complicated computation unnecessary.

Out of 454 employers interviewed on this field trip I spoke of, almost two-thirds express a preference for the use of such a table as I have just described, and in many cases the use of such a table will entirely eliminate the need for an additional machine, which is one of the problems I will discuss later.

Now, we have made a number of minor changes at the suggestions for changes with respect to wages and salaries, which are listed here.

First, the employer would not be required to get withholding deduction certificates from employees hired and employed for less than a week and paid less than \$11. You can easily see how that would simplify the situation.

Next, the employer will be permitted, if he wishes, to get information on the employee's marital and dependency status on a different form from the one he will have to file at the end of the year giving total wages and total tax withheld, instead of, as in the original procedure, using the same form for both purposes.

Next, the employer would be given 30 days' time to prepare a receipt for an employee terminating employment instead of having to give the receipt along with the last pay check. That improvement is designed to take care of the situation where the records are at a distance from the place where the employee is working.

Next, the employer would be given 30 days within which to give effect to a change in an employee's marital and dependency status.

Now, those are the modifications we suggest with respect to wages and salaries. We also have some improvements with respect to dividends.

First, we suggest that the payor corporation be permitted to give an annual receipt instead of a receipt with each dividend payment. It is obvious that that will simplify the procedure very much. In fact, dividend payors have told us that this change will greatly simplify their problem.

For example, one dividend payor has indicated that the substitution of an annual receipt for a quarterly receipt would halve the additional expense of collection at the source.

Senator CLARK. What do you do when there is a change in the ownership? Suppose you give a receipt for a year and then there is a change in the ownership?

Mr. TARLEAU. We would go to the record owner.

Mr. FRIEDMAN. You would give a receipt for the year to each owner. There are just two owners, to which you would have to give two receipts. At the end of the year you would examine the book and find that Mr. Jones to be the holder of the stock for 6 months and you would give him a receipt for 6 months, and Mr. Smith would be the holder of the stock for 6 months and you would give him a receipt for 6 months.

Senator DANAHER. Moreover, every person dealing in the stock would deal with it just like a transaction ex-dividend.

Mr. TARLEAU. They would have to.

Senator DANAHER. Transfer the burden of adjustment from the payor to the buyer or trader, which would work all right.

Mr. PAUL. The next change we suggest is with respect to dividends paid by credit unions, saving and loan associations, building and loan associations, cooperative banks, and farm cooperatives.

There we recommend an exemption from withholding, and the reason is obviously that those dividends are small in amount and paid to a very large number of persons.

Senator CLARK. Sometimes not more than 15 cents.

Mr. PAUL. That is right.

Senator CLARK. Some are so small that they literally amount to 15 cents.

Mr. PAUL. That is right. They are very comparable to interest on savings deposits.

You remember one of the major complaints made by the American Banking Association was that the collection at the source system would seriously threaten the nominee and street name systems of registration of corporate stocks. The proposed system for the treatment of the nominee problem eliminates any ground for this complaint. This system provides for gross withholding from the nominee, for the issuance of a receipt to the nominee by the payer corporation, and to the actual owner by the nominee. We have discussed this new, revised procedure with Mr. Mylander of the American Banking Association, I think it was with Mr. Mylander, and it has been agreed that under the revised procedure the nominee system can be preserved.

You recall one of the points to which the Commissioner called particular attention was the statement in the report by the American Banking Association that one bank had estimated it would require the services of a crew of 12 men for at least 12 months to register the stock now held in nominee form. This would be entirely unnecessary under the revised procedure.

Mr. FRIEDMAN. I talked to Mr. Mylander on this point.

Senator CLARK. He made a very impressive point, to my mind.

Mr. PAUL. The other suggested modifications for dividends would give the corporation more time within which to give effect to exemption certificates and would place the responsibility upon the stockholder to notify the withholding agent that the stockholder is exempt from withholding.

Now, with respect to coupon interest—

Senator DANAHER. Before you leave that, Mr. Paul, you are planning that these exemption certificates can be readily procured? What is your thought on that, Mr. Friedman?

Mr. FRIEDMAN. Our thought on that has been twofold: One, that you try to place them on the counters at banks; and, second, that a great many corporations, as a convenience to their stockholders, would include them with the last dividend check for the year.

The A. T. & T. said that is what they plan to do. They would include a copy of the exemption certificate, a blank copy, with their last dividend check, so that the dividend recipient would get it when he got his check, and he would be able to fill it out the next year.

Senator DANAHER. That would meet a lot of objections.

Mr. PAUL. When I finish my first statement I would like for Mr. Friedman to go into a number of those points, a number of those more

or less minor administrative details, to show just how all these steps will be mechanically taken care of, to show that we have considered this thing through on a practical basis.

We have not been entirely theoretical here.

Now, for coupon interest, we have developed a number of modifications. However, in view of the testimony before the committee as to the very large number of small coupons, and the problems imposed on the initial paying bank and the final obligor by the absence of evidence on the identity of the owners of the coupons, we now propose that coupon bond interest be completely exempted from withholding. The amount of revenue is very small, only \$40,000,000 in 1943 and \$80,000,000 in 1944.

Now, these objections do not apply to withholding from dividends or registered bond interest, which offer a much simpler problem. Moreover, the revenue from dividends is substantial, amounting to about \$200,000,000 in 1943 and about \$400,000,000 in 1944. The relationship is almost 10 to 1.

I want to emphasize that in suggesting the withdrawal of the system with respect to coupon interest, at least unregistered coupon interest, we are very emphatic in our recommendation that the system be kept as to dividends.

Now, these changes have been discussed with the Bureau which is assuming collection at the source. You know their attitude on that. They agree that the changes are desirable and that they will greatly simplify the whole problem.

I want to turn to Mr. Helvering's statement made a day or so ago here. I want to say at the beginning that there is not any question. We have never tried to pretend that the collection is not a good, hard job. However, I want to say, on the other hand, it seems to me, with all due respect, the Commissioner has overmagnified the problem, and I want to show particularly, item by item, how I think he has done that.

In the first place, you notice he made the point that 11,000 additional employees would be required to administer collection at the source.

Senator CLARK. That is in addition to the 5,400 that would be required under the House bill.

Mr. PAUL. That is true. But those 11,000 employees will not all be required at one time, in fact not until 1944. The fact is that only between 3,000 and 4,000 will be required during the calendar year 1943, and the rest of the 11,000 not until 1944. That means you are going to have time to deal with that problem and recruit the personnel.

Senator CLARK. Why is that, Mr. Paul? I do not see why it takes any more personnel to levy a withholding tax of 10 percent than it does a withholding tax of 5 percent.

Mr. PAUL. This distinction is not addressed to that point. The withholding will begin in 1943, if we put it in the statute. The wage returns will begin to come in, there will be a quarterly report, the first group will come in, say, 3 months after the beginning of the year, and then the dividends will not come in until the following year.

Mr. FRIEDMAN. It is not a dividend problem. The difference is, during the first year you get reports only from employers about the money, the amount of money they have withheld. It is not until

1944 that you get a statement from each employee, and it is not until 1944 that you have the problem of checking the statements of the employers against the income-tax returns filed by the employees.

That is, during the year 1943 nothing enters into the system having to do with the employee's part in it. During 1943 you are only dealing with the withholding checks, you are not dealing with the taxpayers at all. It is not until 1944 that you start having the taxpayers enter a credit on their returns, you know.

Mr. PAUL. The matching problem is the main one, and that does not come until 1944.

Mr. FRIEDMAN. There is another thing there. In 1944 you have the problem of taking the employer's quarterly returns during 1943 and balancing them with all the slips he sends in, in order to make sure that the two agree, that the total of all the slips equals the amount he has paid. You do not have to do anything on that until you come to 1944.

All you have to do during 1943 is to get the returns from the employers and to list them.

Mr. PAUL. The next point made by the Commissioner had to do with the personnel problem, and he emphasized this particularly before the Ways and Means Committee, and he complained, and I think he very validly complained, that he was unable to undertake the collection at the source when he had a priority classification, personnel-wise, No. 5. We thought that was a very valid complaint, and I strongly recommended to the Budget that he be given a reclassification. The Budget, being interested in collection at the source and thinking it was very important to have it in the statute, reclassified the Commissioner No. 2. So he now stands just next to the military in status with respect to personnel.

Senator CLARK. The salaries may have had something to do with the difficulty.

Mr. PAUL. That is true. You remember the Commissioner indicated that he had raised his initial deputy salary from \$1,800 to \$2,000.

Senator CLARK. He told me he recommended it. I did not know whether it went into effect.

Mr. PAUL. He told me he had done that. I think I am correct in stating that.

Senator CLARK. He said the fellows would just quit, because they would get better jobs elsewhere.

Mr. PAUL. As to this personnel question, I am not entirely familiar with the ramifications of all this personnel-rating problem, but I know when somebody wants to leave to go to another Department he has to secure permission.

Senator CLARK. But you cannot do anything about them going into private employment.

Mr. PAUL. That is true. This point of personnel classification was very strongly emphasized by the Commissioner.

Senator CLARK. The requirements for the personnel today are much higher than they formerly were, because of the increasing complexity of the whole subject.

Mr. PAUL. That is true as to the personnel that is more devoted to the income tax itself.

Senator CLARK. That is what I am talking about. It used to be that anybody who could read and write was able to get by as a deputy collector.

Mr. PAUL. In respect to collecting at the source there will be great need for more or less routine work. You remember the Commissioner explained that on the estimate of cost by referring to the fact that a great many employees would be low-paid employees.

Now, the Commissioner spoke of the number of forms required. He used the figure of 100,000,000 forms. Well, as a matter of fact, about 75,000,000 to 80,000,000 are now necessary under the information at the source system which is in vogue, and that collection at the source system will replace the information at the source system, so of course the real additional number of forms is only about 20,000,000.

The Commissioner's statement called attention to the need of seven different forms for the administration of collection at the source, and of these forms only three are new; four of the forms replacing those now in use.

Now, the next item made by the Commissioner was with respect to machines. It has been recognized right along that we had a machine problem. We have been assured by the War Production Board that the Bureau's needs can be met. It may be that it may be necessary to introduce some overtime, but we have taken all the steps we can there. The Secretary has written a letter to Mr. Nelson asking for formal assurance on the point, and I think we will get the formal assurance.

Senator GERRY. Mr. Paul, do you think the employers could get the machines?

Mr. PAUL. That question has also been taken up with Mr. Nelson. I think I am correct in saying that the employers can get the machines if they are operating their present machines at a reasonable level of output.

Senator GERRY. Yes.

Mr. PAUL. In other words, there may be some who will not get machines if they are only using the present machines on an 8-hour basis. I think we will be able to get the machines.

Besides that, as I will show in a minute, not so many machines are needed as may be imagined. Hardly any of the machinery, moreover, will be needed, for the reasons we have just indicated, until 1944.

Now, the Commissioner spoke of the number of delinquent employers. He used the figure of 750,000 delinquent employers out of a total of about 2,700,000 withholding agents. Since the number of withholding agents is about the same as the number of employers under the social security tax, it would seem reasonable to compare standards on that basis, and there are only about 250,000 delinquent employers each quarter under the social-security tax, and I would not suppose that there would be any greater rate of delinquency under the one system than under the other.

Senator CLARK. Social security is much easier to administer.

Mr. PAUL. That is true.

Senator CLARK. I mean, that is a gross tax, and this, of course, would have to give consideration to exemptions.

Mr. PAUL. That is true, but under this new improvement something of that distinction has been wiped out.

Senator DANAHER. By the adoption of bands in the table.

Senator CLARK. Of course the bands is a step in the direction of gross tax. I would be opposed to gross withholding because it is very inequitable, but with the band and grade application it seems to me it is not inequitable enough to cause serious objection.

Mr. PAUL. It is not gross withholding, because those amounts take contemplation of the status of the different types of withholders. Even this figure of 250,000, of course, that are delinquent—we use the word “delinquent”. That is a harsh word, but all that it really means in a great many cases is they are late in filing their returns.

Another point is they are usually the small employers and they do not loom too large in percentage.

I want to call attention next to the statement read by the Commissioner to the House Ways and Means Committee on May 22, 1942. The Commissioner said:

I have no doubt that a withholding tax could be satisfactorily administered in normal times. Since these are not normal times, if withholding is to be part of any tax plan the work cannot be done unless the Bureau is to be given priority status with respect to personnel, equipment, and space subordinate alone to the military forces.

As I told you, that has been done, and in addition we have improved the mechanism so much that it ought to be easier now than it was on May 22. You will notice that the statement that I have quoted really expresses no doubt that a collection at the source was feasible if the priority status was obtained.

Now, turning to industry, you have with respect to employers much the same problem in relation to collection at the source as you do with respect to social security. Of course, as you pointed out a moment ago, Senator Clark, the social security is on a gross basis, but we have met part of that distinction by this new table.

I point out here that employers do handle social-security problems without serious difficulty. Canadian employers are handling a system very similar to the one we have proposed, and there has been no serious difficulty.

I referred a moment ago to the fact that we made a field survey. That survey suggested that more than two-thirds of all the employers in the country are not in need of additional equipment. That is, two-thirds of the employees are in firms indicating no need for additional equipment, and fewer than one-third indicating a need for additional equipment. Again, some of this need for additional equipment will be eliminated by the modifications, changes and improvements that we have suggested. Most of the firms that indicated a need for additional equipment are now using their machines no more than 8 hours a day. Again, the indicated needs for additional machines are relatively small in comparison to the machines now in actual use—only about 10 percent additional.

Now, the need for additional personnel. That is fairly widespread, but it is small in the total number, that is, the additional number needed is relatively small. In all this field trip we found very few employers expressing any serious concern about being able to get the personnel they needed.

Now, the Commissioner's statement laid stress on the estimate of the American Banking Association to cost. These estimates were based on a misunderstanding of the law in respect to collection at the source. They were, for instance, based on the assumption that the

* paying agent would need to prepare five copies of a receipt along with each dividend check, and that the proposed system would necessitate the elimination of the "nominee" and "street name" systems of registration of corporate stocks. Neither of these assumptions is valid.

Moreover, our original proposal contemplated only one receipt with each dividend check; and our revised procedure contemplates only one a year, to be prepared as a duplicate of the information return sent to the Bureau. The nominee system would not be disturbed. The estimates of the American Banking Association are, therefore, many times too high. The additional burden on payors of dividends would be relatively slight.

In general, for both employers and payors of dividends, much of the work required under collection at source replaces work now being done in the preparation of information returns. It should be noted that of 454 employers interviewed, 88 percent were favorably disposed to collection at the source and only 6 percent were really, definitely opposed to it.

We thought it was important. We first surveyed the field as to employers, and we then undertook to make a survey—and that is still in progress—as to employees. So far, we have only interviewed 172 employees in Baltimore and Minneapolis, and of those 172 employees, 76 percent were favorable and only 14 percent opposed. Eighty-four percent said the withholding would have no effect on their bond purchases, and only 8 percent said they would reduce their bond payments.

Now those are the detailed considerations that I wanted to point out to the subcommittee.

In conclusion, I want to say that it is no exaggeration to say that collection at the source is, to our way of thinking, one of the most important parts of the revenue bill as passed by the House. We realize that the burden is substantial. I think you will be convinced that we have labored rather assiduously to work out the complexities and problems that we saw as we went along.

I just cannot believe that the problems now remaining are insuperable. They have been conquered in a number of other countries, Canada particularly.

Senator CLARK. What does Canada do? Will you tell us briefly how they operate?

Mr. PAUL. Mr. Friedman has studied that in detail and I will have him describe the Canadian system, which is the nearest, as I understand it, to ours.

Senator CLARK. That is the reason why I asked about Canada.

Senator GERRY. How long has Canada had it working?

Mr. FRIEDMAN. As part of the National Defense Statute, over 2 years.

Senator GERRY. Does that mean the withholding part of it?

Mr. FRIEDMAN. That is right. British Columbia, one of the Provinces of Canada, has also had a withholding system in effect that I think is a year older than the general Canadian law. The general Canadian law is over 2 years old now.

Great Britain has had it working, of course, for a longer time yet.

Mr. PAUL. Although their system is not comparable to ours.

Senator GERRY. I got some Canadian legislation so I could look at it, but I haven't had time to go through it.

Mr. FRIEDMAN. I do not know how they are able to work the British system, because it is about six times as complicated as this.

Mr. PAUL. You have got a different situation in Great Britain than you have here. Of course, they have been doing it for many years.

The reason why we think collection at the source is so important is because we have lowered the exemptions, our income taxes have changed until it is really a mass tax now. You take a person making \$3,000 a year, married and no dependents, his tax liability, under the House bill, is about \$324. I do not believe that the average person making \$3,000 a year is going to be able to budget that amount of money. Other pressures will come in during the year, and he will find, when it comes to the time for payment under the conventional method now in vogue, that he just hasn't got the money.

Mr. Helvering spoke the other day on the point of Bureau prestige and I am just as anxious about the Bureau prestige as anybody, but there is another angle to that. It is not only a matter of making the collection at the source work.

If we do not have it work we are going to have so many defaulting taxpayers, and so much trouble at that end of the picture, that I think we have got the jeopardy of Bureau prestige there.

Senator CLARK. You mean you will not get the money because the fellow just does not have it?

Mr. PAUL. Yes; he does not have it. There is nothing you can do about it then. You can file liens on his salary, and so on, which will certainly be an unpopular procedure. We are just afraid, without collection at the source, with our present rate and our present spread of the incidence of taxation, that the system will break down. I do not think I put it too strongly when I say not only Bureau prestige is involved but the future of the income tax may be involved.

Senator GERRY. How much do you figure this will raise with the amendments you have suggested?

Mr. PAUL. The figure was a billion and a quarter at the 5 percent rate. That will be somewhat reduced, but not very much reduced, if we leave out coupon bond interest.

Senator DANAHER. When you say "raise," to adopt your own words, what you really mean is you will increase your tax collection by an estimated one billion and a quarter?

Mr. PAUL. I do not mean we will increase our tax collections by a billion and a quarter, I mean we will advance our collections.

Senator CLARK. You will advance your collections for the next year.

Mr. PAUL. That is right. I do not think, by a long-shot, that would increase our tax collections by that amount, because you would collect a great part of that billion and a quarter next year, or the year following, say in 1944.

In other words, we are not contending that it would raise the tax collections a billion and a quarter by reason of collection at the source, we contend only that it would advance the collection of a billion and a quarter, approximately, a year.

Senator DANAHER. So that actually, if everyone in 1944 paid up, the aggregate would be the same in either case, I mean as to the total collections.

Mr. PAUL. That is true. But from the inflation standpoint, that time factor is very important.

Senator CLARK. You mean you would receive a billion and a quarter in revenue based on the tax for the past year.

Mr. PAUL. No, no. The general effect of the House bill is on an annual basis, not a collection basis. The House bill, on an annual basis, yields somewhere between four and five billion in the first fiscal year, 1943.

The final point I would like to make in respect to this whole matter of collection at the source has reference to the Ruml plan. It may or may not be that the committee will wish to accept that plan, in some modified form, but it would seem to us that one of the principal modifications of the plan necessarily would be to tie it up or link it with collection at the source.

If we are going to do that, we are going to have the collection-at-the-source system available.

Senator CLARK. I may say, Mr. Paul, as far as I am concerned, the first thing that appealed to me about the Ruml plan was that it seemed to make machinery by which you could get currently withheld taxes and it would be susceptible of having the collection-at-the-source plan coupled with it without the double taxation which is provided by the House plan for collection at the source.

There is only the doubt whether the collection-at-the-source plan is administratively feasible.

Mr. PAUL. I had not intended this morning to go into the Ruml plan.

Senator CLARK. We would be very glad indeed to have you do that. I do not know that the subcommittee would be required to report to the full committee on it.

Mr. PAUL. I would be glad to go into the Ruml plan. I think we might have Mr. Friedman first deal with the more detailed aspects of the procedure, and then if you want to come back to the Ruml plan after that, I will be very glad to discuss it on a sort of informal basis with you.

Senator CLARK. Yes.

Senator DANAHER. Before you turn the meeting over to Mr. Friedman, Mr. Paul, I will direct your attention to this two-age table, dated July 30.

Will you please explain, in the lower half of that table, under the caption, "Withholding agents," the columns that list those who are exempt from the withholding tax?

Mr. PAUL. I think that, as far as any value is concerned, we could strike the table under "Withholding agents" at the extreme right. The important one is the number of withholding agents who are exempt. That is on the left and that totals 3,500,000, and below that you will see what is really more important, and that is those that are subject to the withholding tax, and that is 60,000 Federal Government, 200,000 State and local governments, and 2,440,000 other employees. The reason why we have the railroad employees plus the persons covered by the Social Security is that the Railroad Retirement Act treats them on a separate basis, refers to them separately.

In other words, there are 6,200,000 potential withholding agents, of which 2,700,000 would be withholding agents under our procedure.

Senator DANAHER. Restating it, 2,700,000 are actual and 3,500,000 are exempt.

Mr. PAUL. That is right.

Senator DANAHER. And your purpose in including them in the table was simply to illustrate that there was that number who were being exempted, is that not so?

Mr. PAUL. That is right. That will indicate to you one of the reasons why we did exempt those, because of the vast multiplication of the problem if we had withholding as to domestics, farm labor, and so on.

Senator DANAHER. I have only one other question.

Is it contemplated, with reference to footnote 1, that anybody in the military service would be liable to a withholding tax, irrespective of the nature of his service or the rate of pay?

Mr. FRIEDMAN. All military services are exempt.

Mr. WELLS. It does take into account that during the first part of the year they are subject to withholding.

Senator DANAHER. I just wanted to make sure that there is no question of withholding from Army and Navy men in actual service.

Senator GERRY. Are domestic servants and farm labor included in the withholding?

Mr. PAUL. No; they are exempt.

Senator GERRY. That is what I thought.

Senator CLARK. Mr. Paul, one other point that was raised by the Commissioner that you have not mentioned was the difficulty which he anticipated, or at least suggested, with regard to State, municipalities, school districts, governmental agencies, and things of that sort. What do you think about that?

Mr. PAUL. I think Senator Danaher asked me a question about that at the original hearing. His question went to the matter of enforcement, and I think I said I did not believe we could take steps to enforce, or I could hardly imagine the Federal Government suing the city of Detroit if it failed to comply with the provisions, or suing the city of Detroit for delinquency.

I understood that we would get the cooperation of these State governments and city governments. I do not think that any of our investigation has disclosed any unwillingness on their part to cooperate.

Senator CLARK. Mayor LaGuardia testified against it here. I think he said it would cost the city of New York \$850,000.

Senator DANAHER. I think what he did say was that there were 165,000 employees in the city of New York and that it would cost them \$200,000 for new machines, and it would cost them approximately \$150,000 to \$200,000 additional to administer the plan. That is my recollection of it.

Mr. PAUL. My recollection is that it was \$200,000 additional also, Senator Danaher. I still think we have got to consider all those estimates in the light of some misconception of the plan, and in the light also of the fact that he was talking about a plan that we have very much improved.

Senator DANAHER. This much is a possibility, though, it is not, that you might find your War Department or your Navy Department right here saying, "We are so busy trying to run the war that we just cannot withhold from the civilian employees."

Mr. PAUL. Let us cross that bridge when we come to it. I haven't heard of anybody notifying the Treasury to that effect. Mr. Helvering spoke of some Bureau getting in touch with him, but he did not

say, as I recollect it, what Bureau that was. We have received no information from other bureaus.

I want to say this, that we have discussed this withholding at the source with a number of other bureaus in an advisory way, trying to get their reaction, and some of them are very enthusiastic about it. I can mention particularly the Federal Reserve, the Budget, and I think some of the others.

MR. TARLEAU. The O. P. A., Mr. Henderson.

MR. PAUL. The O. P. A., Mr. Henderson, and Mr. Gilbert are very strong for it.

SENATOR DANAHER. Anybody that has anything to do with the fiscal affairs is for it?

MR. PAUL. That is right.

SENATOR GERRY. You have got your Navy Department, where I think you will have some trouble with the casualties, and things like that. What are you going to do with the withholding, for example, in the matter of the personnel in the Navy Department? You will have dependents. I am on the Naval Affairs Committee and I know we have had a lot of trouble with them. You are bound to meet that problem, I think, and you might as well face it.

MR. PAUL. I do not want to look the other way.

SENATOR GERRY. That is why I was bringing it up. I know we have had a lot of hearings on it, and we have had to work some things out on it.

MR. PAUL. I would like to say I think we can meet most of those problems as we come to them. Maybe we can think of better ideas as we go along. No system of this sort would be perfect when you start, but we have got to get started because it is going to be necessary in the long run, and it is not going to be any easier if we put it off.

In fact, this is about our last clear chance to get the system in the statute.

SENATOR GERRY. What sort of trouble do you have in the States, in, say, Ohio, that has a very elaborate system of sales tax, in respect to withholding, I mean, whether they cooperate with you? I myself do not know anything about the Ohio tax.

MR. PAUL. Well, they have the stamp plan of sales tax.

SENATOR CLARK. They have a plan in which they tear a stamp in two and give the person back half of it, and if he wants to turn it in as a gift to some charitable institution he can turn it into cash for that purpose and no other purpose.

MR. PAUL. I might say we considered the possibility of various stamp plans in the beginning, and we shivered at some of the problems.

SENATOR CLARK. We will come back to the stamp tax later. I want to ask you one question, Mr. Paul. It has nothing to do with what we are talking about, but I have been trying to think to ask you about it for some time. I think I have had as many letters in favor of the mandatory extension of 3 months instead of a discretionary extension by the Commissioner as on any other subject. What is the attitude of the Treasury on that?

MR. PAUL. I do not know whether I understand the question.

SENATOR CLARK. At the present time you can apply to the Commissioner for an extension of time, and if he wants to give it to you, he can give it to you.

The National Association of Accountants, and a great many people, are very much in favor of making mandatory extensions of 3 months.

Mr. TARLEAU. That is right. They have written to us on that, as a matter of fact.

Senator CLARK. I have had about as many letters on that as on any other subject.

Mr. TARLEAU. Mr. Blough and myself are preparing a memorandum for Mr. Paul which, when he gets through with the collection at the source and the Ruml plan, and various other matters that take up his time, we would like to get his attention directed to, just to see whether there cannot be worked out some system to make easier the accountant's problem.

Mr. PAUL. I recognize the fact that the accountants have a particularly serious problem. I have seen it in actual operation. The war has produced for them, as well as for others, a critical situation.

Mr. TARLEAU. It has doubled the personnel they need.

Senator CLARK. Yes.

Thank you, Mr. Paul.

(The tables submitted by Mr. Paul are as follows:)

Estimated number of workers receiving wages at some time during calendar year 1942, number of such workers subject to filing an income-tax return, and number subject to withholding tax, also number of withholding agents

[All figures are in thousands]

	Total number of persons receiving wages at some time during year	Number of persons	
		Subject to filing regular income-tax returns under H. R. 7378	Subject to withholding
Exempt from withholding tax:			
Agriculture.....	3,000	300	1,400
Domestic.....	2,000	400	1,000
Casual.....	1,000	200	800
Military (full year of service).....	2,000	800	800
Self-employed.....	(*)	1,000	(*)
Total.....	8,000	2,700	4,000
Subject to withholding tax:			
Federal Government.....	2,000	1,500	1,500
State and local governments.....	3,000	2,000	2,000
All other—Railroad employees, plus persons covered by social security.....	49,000	25,300	23,500
Total.....	54,000	28,800	27,000
Total.....	62,000	31,500	31,000

WITHHOLDING AGENTS (THE EMPLOYERS OF THE WORKERS LISTED IN EACH COLUMN ABOVE)

Exempt from withholding tax:		
Farmers.....	1,500	400
Housewives.....	2,000	525
Casuals.....		
Total.....	3,500	925

See footnotes at end of table.

Estimated number of workers receiving wages at some time during calendar year 1942, number of such workers subject to filing an income-tax return, and number subject to withholding tax, also number of withholding agents—Continued

WITHHOLDING AGENTS (THE EMPLOYERS OF THE WORKERS LISTED IN EACH COLUMN ABOVE—Continued)

[All figures are in thousands]

	Total number of persons receiving wages at some time during year	Number of persons	
		Subject to filing regular income-tax returns under 41. R. 7378	Subject to withholding
Subject to withholding tax:			
Federal Government ¹	60		60
State and local governments	200		200
All other—Railroad employees plus persons covered by social security ²	2,440		2,440
Total	2,700		2,700
³ Total	6,200		3,625

* Not included.

¹ While the military personnel spending the full year in active service will increase in the calendar year 1943, it is assumed that the increase will be replaced in civil life, so that at the level of income of the calendar year 1942 the estimated number of persons subject to withholding under H. R. 7378 is still 27,000,000.

² Excludes the military forces.

³ Excludes persons employed at any time during the year in agricultural, domestic, or governmental work.

⁴ Withholding agents for casuals are included under housewives or under other agents who have employees subject to withholding.

Source: Treasury Department, Division of Research and Statistics, July 30, 1942.

TABLE 1.—Amounts to be withheld from wages and salaries under a 5 percent rate—weekly basis

Number of dependents	Single persons, not heads of families						Married person with employed spouse ¹					
	None	1	2	3	4	5 or more	None	1	2	3	4	5 or more
Weekly wage:												
\$0 to \$9.99												
\$10 to \$14.99	\$0.10						\$0.20					
\$15 to \$19.99	.30						.50					
\$20 to \$24.99	.60	\$0.10					.70					
\$25 to \$29.99	.80	.40					1.10	.70	\$0.20			
\$30 to \$39.99	1.20	.80	\$0.30				1.60	1.20	.70	\$0.30		
\$40 to \$49.99	1.70	1.30	.80	\$0.40			2.10	1.70	1.20	.80	\$0.40	
\$50 to \$59.99	2.20	1.80	1.30	.90	\$0.50	\$0.10	2.60	2.20	1.70	1.30	.90	\$0.50
\$60 to \$69.99	2.70	2.30	1.80	1.40	1.00	.60	3.10	2.70	2.20	1.80	1.40	1.00
\$70 to \$79.99	3.20	2.80	2.30	1.90	1.50	1.10	3.60	3.20	2.70	2.30	1.90	1.50
\$80 to \$89.99	3.70	3.30	2.80	2.40	2.00	1.60	4.10	3.70	3.20	2.80	2.40	2.00
\$90 to \$99.99	4.20	3.80	3.30	2.90	2.50	2.10	4.60	4.20	3.70	3.30	2.90	2.50
\$100 to \$109.99	4.70	4.30	3.80	3.40	3.00	2.60	5.10	4.70	4.20	3.80	3.40	3.00
\$110 to \$119.99	5.20	4.80	4.30	3.90	3.50	3.10	5.60	5.20	4.70	4.30	3.90	3.50
\$120 to \$129.99	5.70	5.30	4.80	4.40	4.00	3.60	6.10	5.70	5.20	4.80	4.40	4.00
\$130 to \$139.99	6.20	5.80	5.30	4.90	4.50	4.10	6.60	6.20	5.70	5.30	4.90	4.50
\$140 to \$149.99	6.70	6.30	5.80	5.40	5.00	4.60	7.10	6.70	6.20	5.80	5.40	5.00
\$150 to \$159.99	7.20	6.80	6.30	5.90	5.50	5.10	7.60	7.20	6.70	6.30	5.90	5.50
\$160 to \$169.99	7.70	7.30	6.80	6.40	6.00	5.60	8.10	7.70	7.20	6.80	6.40	6.00
\$170 to \$179.99	8.20	7.80	7.30	6.90	6.50	6.10	8.60	8.20	7.70	7.30	6.90	6.50
\$180 to \$189.99	8.70	8.30	7.80	7.40	7.00	6.60	9.10	8.70	8.20	7.80	7.40	7.00
\$190 to \$199.99	9.20	8.80	8.30	7.90	7.50	7.10						

¹ No allowance for working wife credit.

TABLE 1.—Amounts to be withheld from wages and salaries under a 5 percent rate—weekly basis—Continued

Number of dependents	Married person with spouse not employed						Head of family					
	None	1	2	3	4	5 or more	None	1	2	3	4	5 or more
Weekly wage:												
0 to \$9.99												
\$10 to \$14.99												
\$15 to \$19.99												
\$20 to \$24.99												
\$25 to \$29.99	.10						.10	.10				
\$30 to \$34.99	.40						.40	.40				
\$35 to \$39.99	.90	.50					.90	.90	.50	.10		
\$40 to \$44.99	1.40	1.00	.60	.20			1.40	1.40	1.00	.60	.20	
\$45 to \$49.99	1.90	1.50	1.10	.70	.20		1.90	1.90	1.50	1.10	.70	.20
\$50 to \$54.99	2.40	2.00	1.60	1.20	.70	.30	2.40	2.40	2.00	1.60	1.20	.70
\$55 to \$59.99	2.90	2.50	2.10	1.70	1.20	.80	2.90	2.90	2.50	2.10	1.70	1.20
\$60 to \$64.99	3.40	3.00	2.60	2.20	1.70	1.30	3.40	3.40	3.00	2.60	2.20	1.70
\$65 to \$69.99	3.90	3.50	3.10	2.70	2.20	1.80	3.90	3.90	3.50	3.10	2.70	2.20
\$70 to \$74.99	4.40	4.00	3.60	3.20	2.70	2.30	4.40	4.40	4.00	3.60	3.20	2.70
\$75 to \$79.99	4.90	4.50	4.10	3.70	3.20	2.80	4.90	4.90	4.50	4.10	3.70	3.20
\$80 to \$84.99	5.40	5.00	4.60	4.20	3.70	3.30	5.40	5.40	5.00	4.60	4.20	3.70
\$85 to \$89.99	5.90	5.50	5.10	4.70	4.20	3.80	5.90	5.90	5.50	5.10	4.70	4.20
\$90 to \$94.99	6.40	6.00	5.60	5.20	4.70	4.30	6.40	6.40	6.00	5.60	5.20	4.70
\$95 to \$99.99	6.90	6.50	6.10	5.70	5.20	4.80	6.90	6.90	6.50	6.10	5.70	5.20
\$100 to \$104.99	7.40	7.00	6.60	6.20	5.70	5.30	7.40	7.40	7.00	6.60	6.20	5.70
\$105 to \$109.99	7.90	7.50	7.10	6.70	6.20	5.80	7.90	7.90	7.50	7.10	6.70	6.20
\$110 to \$114.99	8.40	8.00	7.60	7.20	6.70	6.30	8.40	8.40	8.00	7.60	7.20	6.70

Source: Treasury Department, Division of Tax Research, Aug. 14, 1942.

Senator CLARK. Will you go right ahead, Mr. Friedman?

STATEMENT OF MILTON FRIEDMAN, DIVISION OF TAX RESEARCH, TREASURY DEPARTMENT

Senator DANAHER. I think, Mr. Paul, before you abandon that last answer to Senator Clark, you should perhaps make apparent that you are talking about corporation returns as distinguished from individual returns under the quarterly payment plan. That is where the problem arises; is it not?

Mr. PAUL. Yes; because those are returns, by and large, prepared by accountants.

Senator DANAHER. What Mr. Tarleau was talking about and what Mr. Paul was talking about is merely corporation returns.

Mr. TARLEAU. Yes; it is a schedule, and the difficulties in corporate returns are much greater than in individual returns.

Mr. PAUL. Would not that apply to partnership returns, too?

Mr. TARLEAU. To a considerable extent. The principal problem is in the corporate field.

Senator CLARK. All right, Mr. Friedman.

Mr. FRIEDMAN. I would like to call attention first to one point that arose in connection with this discussion of delinquency, and that is the comparison between the social-security situation and this one.

It is true that the withholding process is slightly more complicated here than under Social Security; but, on the other hand, the kind of reports that the employers have to make is very much simpler under the withholding plan than under Social Security.